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August 31, 2011

**VIA ELECTRONIC MAIL**

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Chief Clerk/Administrator  
Public Service Commission of South Carolina  
101 Executive Center Dr., Suite 100  
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**VIA ELECTRONIC MAIL AND U. S. MAIL**

K. Chad Burgess, Esquire  
Senior Counsel  
South Carolina Electric and Gas Company  
220 Operation Way – MC C222  
Cayce, South Carolina 29033-3701

Re: Report of the South Carolina Office of Regulatory Staff's Examination of South Carolina Electric and Gas Company's Monitoring Report under the Natural Gas Rate Stabilization Act for the Twelve-Month Period Ending March 31, 2011

**Docket No. 2011-6-G**

Counselors:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2010), ("RSA" or the "Act"), conducted an examination of South Carolina Electric and Gas Company's ("SCE&G" or the "Company") Monitoring Report for the twelve-month period ended March 31, 2011. The examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2011 Quarterly Monitoring Report an As Adjusted rate of return and return on common equity of 7.22% and 8.00%, respectively. The Company's

calculation of the increase in revenue required to restore return on common equity to the 10.25% level authorized in its most recent rate case (Order No. 2005-619 issued in Docket No. 2005-113-G on October 31, 2005) was \$8,635,166.

Based upon its examination, ORS is proposing certain adjustments (see Schedule 2) to bring the Company's Monitoring Report into conformance with Section 58-5-430 and Section 58-5-440 of the Act. As a result of these accounting and pro forma adjustments, ORS calculated the Company's rate of return and return on common equity as 7.24% and 8.05%, respectively.

Therefore, in accordance with the guidelines of the Act, ORS agrees that the Company must increase its rates sufficiently to raise its return on common equity to 10.25%, as authorized in Order No. 2006-553. Accordingly, ORS recommends that the Company's request of \$8,635,166 be decreased by (\$174,896) resulting in an increase to revenues of \$8,460,270. After the proposed increase, the Company will have the opportunity to earn a rate of return and return on common equity of 8.44% and 10.25%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	Approved Return on Equity
10-14-2008	2006-157-G	\$4,735,547	\$3,721,724	10.25%
10-13-2009	2009-6-G	\$13,355,010	\$13,007,004	10.25%
10-14-2010	2010-6-G	(\$10,094,457)	(\$10,385,258)	10.25%

The following is a description of Schedules prepared by ORS as a result of its examination of the Company's filing:

**Schedule 1** presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2011, and the accounting and pro forma adjustments which ORS has determined are necessary to normalize the Company's operations both before and after the effect of the requested increase. Utilizing the per book rate base of \$439,576,204 and income of \$33,716,411, a rate of return was calculated on per book operations of 7.67% with a corresponding return on common equity of 8.83%. ORS accounting and pro forma adjustments decreased Net Income for Return to \$31,771,085 and decreased rate base to \$438,772,619. A rate of return of 7.24% and a return on common equity of 8.05% were computed by ORS. After the adjustments for the proposed margin increase of \$8,460,270, Net Income for Return increased to \$37,032,407. The rate of return on rate base computed by ORS after the adjustments for the proposed increase is 8.44%. The return on common equity is 10.25%.

**Schedule 2** presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

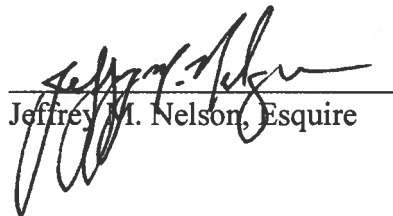
**Schedule 3** presents the calculation of the weighted cost of capital used by the Company in calculating its return on common equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt and common equity according to the respective ratios as computed using the Company's capital structure as of March 31, 2011. The amount of total income for return necessary to cover an embedded cost rate of 6.27% on long term debt is computed to be \$12,495,516. The remainder of the total income for return of \$19,275,569 is income to common equity. Such remainder produced a return of 8.05% on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments, but prior to the requested increase, is 7.24%. Such overall cost equals the rate of return on rate base shown on Schedule 1.

After the proposed increase of \$8,460,270, income available to common equity increases to \$24,536,891 and return on common equity increases to 10.25%. Overall cost of capital as detailed in Schedule 3 equals 8.44%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,

  
Jay R. Jashinsky, CPA

- and -

  
Jeffrey M. Nelson, Esquire

**South Carolina Electric & Gas Company**  
**Operating Experience - Total Gas**  
**For the Test Year Ended March 31, 2011**  
**Working Copy**

<u>Description</u>	<u>Per Regulatory Books</u>	<u>ORS Accounting &amp; Pro Forma Adjustments</u>	<u>As Adjusted</u>	<u>Proposed Increase (Decrease)</u>	<u>Total After Proposed Increase (Decrease)</u>
<b><u>Operating Revenues</u></b>	\$ 405,538,284	\$ (2,593,262) (A)	\$ 402,945,022	\$ 8,460,270 (M)	\$ 411,405,292
<b><u>Operating Expenses:</u></b>					
O&M Expenses - Cost of Gas	256,898,278		256,898,278		256,898,278
O&M Expenses - Other	62,657,257	626,821 (B)	63,284,078		63,284,078
Dep. & Amort. Expenses	23,039,384	448,285 (C)	23,487,669		23,487,669
Taxes Other Than Income	18,484,600	454,092 (D)	18,938,692	41,641 (N)	18,980,333
State Income Taxes	367,971	(1,177,099) (E)	(809,128)	420,931 (O)	(388,197)
Federal Income Taxes	10,627,950	(1,023,261) (F)	9,604,689	2,799,194 (P)	12,403,883
<b><u>Total Operating Expenses</u></b>	<b>372,075,440</b>	<b>(671,162)</b>	<b>371,404,278</b>	<b>3,261,766</b>	<b>374,666,044</b>
<b><u>Total Operating Income</u></b>	<b>33,462,844</b>	<b>(1,922,100)</b>	<b>31,540,744</b>	<b>5,198,504</b>	<b>36,739,248</b>
Customer Growth	404,342	(23,226) (G)	381,116	62,818 (Q)	443,934
Interest on Customer Deposits	(150,775)	-	(150,775)		(150,775)
<b><u>Net Income for Return</u></b>	<b>33,716,411</b>	<b>(1,945,326)</b>	<b>31,771,085</b>	<b>5,261,322</b>	<b>37,032,407</b>
<b><u>Rate Base:</u></b>					
Gross Plant in Service	825,243,426	(421,599) (H)	824,821,827		824,821,827
Reserve for Depreciation	(329,125,797)	(278,654) (I)	(329,404,451)		(329,404,451)
Net Plant in Service	496,117,629	(700,253)	495,417,376		495,417,376
Construction Work in Process	9,757,949	(135,236) (J)	9,622,713		9,622,713
Accum. Deferred Income Taxes	(93,083,935)		(93,083,935)		(93,083,935)
Environmental Costs	8,262,620		8,262,620		8,262,620
OPEB's	(11,801,591)	(46,449) (K)	(11,848,040)		(11,848,040)
Reg. Asset for Unrcvrd PAP	177,299		177,299		177,299
Injuries & Damages	(482,447)		(482,447)		(482,447)
Materials & Supplies	31,349,054		31,349,054		31,349,054
Total Working Capital	7,832,157	78,353 (L)	7,910,510		7,910,510
Prepayments	11,103,066		11,103,066		11,103,066
Average Tax Accruals	(12,741,627)		(12,741,627)		(12,741,627)
Customer Deposits	(6,913,970)		(6,913,970)		(6,913,970)
<b><u>Total Rate Base</u></b>	<b>439,576,204</b>	<b>(803,585)</b>	<b>438,772,619</b>	<b>-</b>	<b>438,772,619</b>
<b><u>Rate of Return</u></b>	<b>7.67%</b>		<b>7.24%</b>		<b>8.44%</b>
<b><u>Return on Common Equity</u></b>	<b>8.83%</b>		<b>8.05%</b>		<b>10.25%</b>

**South Carolina Electric & Gas Company**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended March 31, 2011**

**Schedule 2**

<u>Description</u>		<u>Per</u> <u>SCE&amp;G</u>	<u>Per</u> <u>ORS</u>
<b>(A)</b>	<b><u>Operating Revenues</u></b>		
1	To annualize revenues for lateral transfers from contract rates to published tariff rates	\$ 202,462	\$ 202,462
2	To adjust annualized approved revenue decrease for 2010 RSA proceeding. Order No. 2010-700.	(2,795,724)	(2,795,724)
	<b><u>Total Operating Revenues</u></b>	<b>\$ (2,593,262)</b>	<b>\$ (2,593,262)</b>
<b>(B)</b>	<b><u>Operating and Maintenance Expense</u></b>		
3	To annualize wages and benefits	\$ 2,078,207	\$ 2,078,207
4	To remove 50% of employee & officer bonuses	(1,442,412)	(1,442,412)
5	To annualize other post employment benefits	75,221	75,221
6	To remove operating expenses related to employee clubs	(74,217)	(74,217)
7	To adjust for Customer Awareness Campaign expenses	83,118	83,118
8	To record adjustment for Pension and Health Care expenses	(324,765)	(324,765)
9	To annualize Insurance Expense	(2,130)	(2,130)
10	To remove Pension Income	217,917	217,917
11	To make a one-time adjustment for invoices related to Customer Awareness Expenses	20,416	20,416
12	To adjust for new Gas Controller positions	188,824	188,824
13	To remove non-allowable expenses for ratemaking purposes	-	(193,358)
	<b><u>Total Operating and Maintenance Expense</u></b>	<b>\$ 820,179</b>	<b>\$ 626,821</b>
<b>(C)</b>	<b><u>Depreciation and Amortization Expense</u></b>		
14	To remove depreciation expense related to employee clubs	\$ (16,413)	\$ (16,413)
15	To annualize depreciation	436,657	436,657
16	To record amortization for North Charleston Facility	28,041	28,041
	<b><u>Total Depreciation and Amortization Expense</u></b>	<b>\$ 448,285</b>	<b>\$ 448,285</b>
<b>(D)</b>	<b><u>Taxes Other Than Income</u></b>		
17	To adjust taxes related to Lateral Customer Revenue adjustment for tariff rates	\$ 1,012	\$ 997
18	To annualize payroll taxes for wages and benefits	147,795	147,795
19	To remove 50% of payroll taxes related to employee & officer bonuses	(91,414)	(91,414)
20	To annualize property tax expense	399,390	399,390
21	To adjust taxes for the annualized approved revenue decrease from 2010 RSA proceeding. Order No. 2010-700.	(13,967)	(13,761)
22	To adjust taxes related to new Gas Controller positions	11,085	11,085
	<b><u>Total Taxes Other Than Income</u></b>	<b>\$ 453,901</b>	<b>\$ 454,092</b>

**South Carolina Electric & Gas Company**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended March 31, 2011**

**Schedule 2**

<u>Description</u>		<u>Per SCE&amp;G</u>	<u>Per ORS</u>
(E)	<b><u>State Income Taxes:</u></b>		
23	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ (1,186,792)	\$ (1,177,099)
	<b><u>Total State Income Taxes:</u></b>	<u>\$ (1,186,792)</u>	<u>\$ (1,177,099)</u>
(F)	<b><u>Federal Income Taxes</u></b>		
24	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses	\$ (1,087,323)	\$ (1,023,261)
	<b><u>Total Federal Income Taxes:</u></b>	<u>\$ (1,087,323)</u>	<u>\$ (1,023,261)</u>
(G)	<b><u>Customer Growth</u></b>		
25	To adjust customer growth for accounting and pro forma adjustments	\$ -	\$ (23,226)
	<b><u>Total Customer Growth</u></b>	<u>\$ -</u>	<u>\$ (23,226)</u>
(H)	<b><u>Plant In Service</u></b>		
26	To remove employee clubs	\$ (550,166)	\$ (550,166)
27	To recognize property retirements	(6,669)	(6,669)
28	To recognize property additions and adjustments to Plant In Service	135,236	135,236
	<b><u>Total Plant In Service</u></b>	<u>\$ (421,599)</u>	<u>\$ (421,599)</u>
(I)	<b><u>Accumulated Depreciation</u></b>		
29	To remove employee clubs	\$ 179,375	\$ 179,375
30	To recognize property retirements	6,669	6,669
31	To annualize depreciation	(436,657)	(436,657)
32	To recognize the amortization for North Charleston facility	(28,041)	(28,041)
	<b><u>Total Accumulated Depreciation</u></b>	<u>\$ (278,654)</u>	<u>\$ (278,654)</u>
(J)	<b><u>CWIP</u></b>		
33	To decrease CWIP for property additions closed to plant in service	(135,236)	(135,236)
	<b><u>Total CWIP</u></b>	<u>\$ (135,236)</u>	<u>\$ (135,236)</u>
(K)	<b><u>Deferred Debits/Credits</u></b>		
34	To annualize other post employment benefits	\$ (46,449)	\$ (46,449)
	<b><u>Total Deferred Debits/Credits</u></b>	<u>\$ (46,449)</u>	<u>\$ (46,449)</u>
(L)	<b><u>Working Capital</u></b>		
35	To adjust cash working capital	\$ 102,522	\$ 78,353
	<b><u>Total Working Capital</u></b>	<u>\$ 102,522</u>	<u>\$ 78,353</u>

South Carolina Electric & Gas Company  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended March 31, 2011

<u>Description</u>		<u>Per SCE&amp;G</u>	<u>Per ORS</u>
(M)	<b><u>Operating Revenues for Proposed Increase</u></b>		
36	To adjust revenues for the proposed increase	\$ 8,635,166	\$ 8,460,270
	<b><u>Total for Proposed Increase</u></b>	<u>\$ 8,635,166</u>	<u>\$ 8,460,270</u>
(N)	<b><u>Taxes Other Than Income</u></b>		
37	To adjust gross receipts tax for the proposed increase	\$ 43,141	\$ 41,641
	<b><u>Total Taxes Other Than Income</u></b>	<u>\$ 43,141</u>	<u>\$ 41,641</u>
(O)	<b><u>State Income Taxes for Proposed Increase</u></b>		
38	To adjust state income taxes (rate of 5%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ 429,604	\$ 420,931
	<b><u>Total State Taxes for Proposed Increase</u></b>	<u>\$ 429,604</u>	<u>\$ 420,931</u>
(P)	<b><u>Federal Income Tax for Proposed Increase</u></b>		
39	To adjust federal income taxes (rate of 35%) to reflect the impact on income for adjustments to operating revenues and expenses related to the proposed increase	\$ 2,856,912	\$ 2,799,194
	<b><u>Total Federal Income Tax for Proposed Increase</u></b>	<u>\$ 2,856,912</u>	<u>\$ 2,799,194</u>
(Q)	<b><u>Customer Growth</u></b>		
40	To adjust customer growth for adjustments to operating revenues and expenses related to the proposed increase	\$ 64,132	\$ 62,818
	<b><u>Total Customer Growth for Proposed Increase</u></b>	<u>\$ 64,132</u>	<u>\$ 62,818</u>

Description	Capital Structure	Ratio	Regulatory Per Books				As Adjusted				After Proposed Increase			
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 2,915,425,000	45.42%	\$ 199,655,512	6.27%	2.85%	\$ 12,518,401	\$ 199,290,524	6.27%	2.85%	\$ 12,495,516	\$ 199,290,524	6.27%	2.85%	\$ 12,495,516
Preferred Stock	100,000													
Common Equity	3,503,747,955	54.58%	239,920,692	8.83%	4.82%	21,198,010	239,482,095	8.05%	4.39%	19,275,569	239,482,095	10.25%	5.59%	24,536,891
Totals	\$ 6,419,272,955	100.00%	\$ 439,576,204		7.67%	\$ 33,716,411	\$ 438,772,619		7.24%	\$ 31,771,085	\$ 438,772,619		8.44%	\$ 37,032,407